EXHIBIT

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INS 16-026-AB

NEW HAMPSHIRE DEPARTMENT OF INSURANCE

APPLICATION OF NATIONAL COUNCIL ON COMPENSATION INSURANCE

For Revision of Workers Compensation Insurance Rates

DIRECT TESTIMONY

OF

THOMAS V. DALEY

Witness for the Applicant

Prefiled: September 26, 2016

NEW HAMPSHIRE WORKERS COMPENSATION RATE HEARING

PREFILED DIRECT TESTIMONY

OF

TOM DALEY

I. Qualifications

1. Q. Mr. Daley, please state your full name, your employer and the position you hold.

A. My name is Tom Daley, and I am an actuary for the National Council on Compensation Insurance, Inc. ("NCCI"). In my current position, I am responsible for overseeing the rate filings and presenting actuarial testimony in a few NCCI jurisdictions including New Hampshire.

2. Q. Would you please outline your academic and professional training?

A. I hold a B.S. degree in Mathematics with a minor in Actuarial Science from Pennsylvania State University in University Park, Pennsylvania. I am an Associate of the Casualty Actuarial Society and a Member of the American Academy of Actuaries.

3. Q. Would you please summarize your professional experience?

A. I have thirty-one years of actuarial experience in various disciplines. For the last twenty-five years, I have worked for NCCI where my primary responsibilities are: overseeing state rate filings class ratemaking and individual risk rating research. Prior to joining NCCI, I spent six years with the Travelers Insurance Company, and worked in commercial lines pricing and loss reserving.

4. Q. Did you oversee the production of the pending New Hampshire rate filings?

A. Yes.

II. Summary

5. Q. What is the purpose and scope of your testimony?

A. I will provide testimony on the key components of NCCI's applications for revisions of voluntary market loss costs and assigned risk market rates to become effective January 1, 2017.

6. Q. Would you please summarize the proposed changes to the current voluntary market loss costs?

A. The voluntary market loss cost filing proposes an overall loss cost level change of -9.0% for the industrial classifications. The components of this change are summarized below:

Experience, Trend and Benefit Change	-9.7%
Change in Loss Based Expenses	+0.8%
Overall Voluntary Loss Cost Change	-9.0%

7. Q. Would you please summarize the proposed changes to the assigned risk rates?

A. The assigned risk rate filing proposes an overall rate level change of -9.4% for the industrial classifications. The components of this change are summarized below:

Voluntary Loss Cost Change	-9.0 %
Change in Assigned Risk Multiplier	-0.4 %
Overall Assigned Risk Rate Change	-9.4 %

III. Voluntary Market

8. Q. Would you summarize the actuarial methodology used in developing the experience, trend and benefit portion of the indication?

A. There are several key determinants of the experience, trend and benefit change.

- **The base experience period** used in this filing is the latest three policy years, 2012, 2013 and 2014. This represents the same methodology used in last year's New Hampshire filing.
- **The loss development factors** included in this filing reflect an average of paid and paid plus case data; this is also consistent with the methodology underlying the last several years' approved filings.
- **The trends** proposed in this filing are -3.0% for indemnity losses and 0.0% for medical losses. This represents no change to the current approved indemnity trend and a decrease to the current approved medical trend of +1.0%.
- **The benefit change** incorporated into this filing is the July 1, 2016 update to the minimum and maximum benefits based on the latest increase in New Hampshire's state average weekly wage.

9. Q. Why is NCCI proposing to use a three year experience period?

A. In preparing the loss cost filings for New Hampshire, NCCI historically observed relative stability in the loss ratios for the latest two policy years. As a result, in order to be more responsive to the most recent experience, NCCI used the latest two policy years for the base experience period. However, the analysis two years ago revealed more volatility in the results than in the past, and NCCI proposed using three years for the base experience period. The use of three years was approved by the New Hampshire Department of Insurance. In order to maintain the balance between stability and responsiveness, NCCI is proposing a three year experience period again this year.

10. Q. Please discuss your selection of the average of paid and paid plus case loss development.

A. It is a standard part of our review for each year's filing to analyze loss development patterns based on paid and paid plus case data. All other things being equal, actuaries often prefer to use paid plus case data over paid data. By definition, paid plus case data begins with a broader base of experience, and that base reflects the expert opinions of claims adjusters who have established case reserves for individual claims. As a result, it requires less reliance on the application of a factor to develop losses to their ultimate values. However, because paid plus case projections rely on estimated case reserves, they are also subject to distortion if company reserving practices or the overall level of case reserve adequacy changes. When such changes are evident in the data, a paid loss development method is often preferred.

In New Hampshire, the last eleven years' rate filings were based on the average paid and paid plus case indications to derive the proposed loss cost changes. We observed relatively stable paid and paid plus case loss development factors. We also reviewed other factors including average case reserves and claim closure rates, and observed no changes to suggest that the estimates resulting from either method would be distorted. In reviewing the data underlying the pending filing (to be effective January 1, 2017), there were no significant issues to indicate that a change in methodology was necessary. Therefore, we maintained the methodology of averaging the paid and paid plus case indications.

11. Q. You stated earlier that you are proposing an indemnity loss ratio trend of -3.0%. Please explain how you selected the indemnity trend.

A. The trend selections for both indemnity and medical are based on a review of several different projections including exponential loss ratio trends and exponential frequency and severity trends, using both paid losses and paid plus case losses. Each of these methods provides insight into the trends that might be expected to affect the policy period during which the proposed rates will be in effect. In making our final selections, we review the loss ratios, as well as consider how the separate frequency and severity components affect those results.

The historical indemnity loss ratios in New Hampshire have generally decreased over time. Fitted exponential indemnity loss ratio trends range from -1.9% to -4.2% based on fits utilizing 5 to 15-points of data. Greater consideration was given to longer term trend fits since they are more stable. Longer term trends, based on fits utilizing 10 to 12-points, are shown below:

12-Point	-3.0%
11-Point	-2.9%
10-Point	-3.5%

These indemnity loss ratio trend fits support the proposed indemnity loss ratio trend selection of -3.0%.

12. Q. Your proposed medical loss ratio trend is 0.0%. Please explain how you selected the medical trend.

A. Although New Hampshire's medical loss ratios are higher than the indemnity loss ratios, there has been improvement in recent years. As was the case with indemnity, greater consideration was given to longer term trend fits since they are more stable. Longer term trends based on 10 to 12-points are shown below:

12-Point	-0.2%
11-Point	-0.5%
10-Point	-0.9%

Based on these longer term fits, and with due consideration to the volatility inherent in the medical loss ratios, as well as the improvement noted earlier, we elected to lower the current approved medical trend to 0.0%, a 1.0% reduction.

13. Q. You mentioned that there is a 0.8% increase in the overall provision for loss-based expenses. How do the individual components of the loss-based expenses contribute to this increase?

A. The loss-based expense provision is made up of three components. For loss adjustment expense (LAE), the largest component of these expenses, the filing proposes an increase in the provision from 15.2% to 15.9%. The other components of the loss-based expenses include provisions for the second injury fund assessment and the special fund for active cases. We are proposing an increase from 7.8% to 8.1% for these two provisions. Please note that the Workers Compensation Administrative Fund Assessment is not included in the voluntary loss costs. This is consistent with last year's filing.

IV. Assigned Risk Market

14. Q. With regard to the assigned risk filing, would you please explain what the assigned risk multiplier is?

A. The components of the filing discussed thus far pertain to the loss costs, including loss adjustment expense. In the voluntary market, carriers file a loss cost multiplier, which is applied to the loss costs to determine the final manual rate. This multiplier contemplates expenses other than loss adjustment expense, and a provision for profit and contingencies. For the residual market, NCCI files the fully loaded rates, which include these provisions.

The assigned risk multiplier is the factor that is applied to the voluntary loss cost to determine the assigned risk rate. Components of the multiplier include:

- Assigned risk differential. This represents the difference in the loss experience between the assigned risk market and the statewide experience on which the underlying loss costs are based.
- Removal of voluntary loss-based expenses. This is necessary because the servicing carrier allowance (SCA) already contains a provision for loss adjustment expenses, and loss-based assessments are separately included in the assigned risk expense determination.
- Assigned risk expenses. The assigned risk expenses consist of the SCA; commissions; NCCI assigned risk plan administration expenses; premium based taxes and assessments; profit and contingency provision; and loss-based assessments. The total assigned risk expenses are used to compute the permissible loss ratio (PLR), which in turn is used in the calculation of the assigned risk multiplier.

15. Q. Would you please explain the proposed change in the assigned risk multiplier?

A. The proposed overall change in the assigned risk multiplier is -0.4%. This change is comprised of the following changes to the multiplier components as shown below.

Component	Current	Proposed	Impact of Change on LCM
(1) Assigned Risk Differential	1.180	1.180	0.0%
(2) Voluntary Loss-Based Expenses	1.230	1.240	-0.8%
(3) Assigned Risk PLR	0.637	0.635	+0.3%
(4) Assigned Risk LCM	1.505	1.499	-0.4%

(4) = (1)/(2)/(3)

16. Q. The assigned risk multiplier also reflects the Permissible Loss Ratio (PLR). Please explain the change in the PLR.

A. The change in the PLR results from changes to the components of the assigned risk expenses described earlier. These changes are displayed in further detail in the Exhibit II for the assigned risk market. Note that the assigned risk rate filing includes the weighted average allowance of the three servicing carriers that were recently selected by the New Hampshire Department of Insurance to service the residual market pool. The provision for the servicing carriers proposed in this year's rate filing is unchanged from the current approved provision. Therefore, the majority of the change in the PLR in this rate filing is due to a small increase in the provision for loss based assessments.

17. Q. Were there any methodology changes which impact the assigned risk market?

A. No.

V. Other Discussion

19. Q. Does this conclude your pre-filed testimony?

A. Yes.